

Remarks of the Honorable Greg Walden
Chairman, Subcommittee on Communications and Technology
Broadband, Economic Growth, and the Implications for Spectrum Policy
AEI Center on Internet, Communications, and Technology Policy
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(Remarks as Prepared for Delivery)

I was asked to come give you a brief overview of the U.S. economy and the role of the communications and technology sectors in the big picture. Looking first to the larger U.S. economy, I can sum it up in one word: struggling. We are now five years past the collapse of Lehman Brothers and the bailouts of Bear Stearns, Fannie Mae, Freddie Mac, AIG and others and what do we have to show for our recovery efforts? Unemployment is still above 7%. In fact, just 63 percent of Americans are part of the labor force – the smallest U.S. labor force since the Carter Administration. Thanks to the Affordable Care Act many part time workers are having their hours cut. And, our tax system has caused U.S. companies to hold cash on hand abroad rather than invest it here at home.

Despite the struggling economy, there are still bright spots. The communications sector is one of those spots. The sector continues to grow, to innovate, and to invest in America. Broadband providers alone have invested in excess of \$55 billion for each of the last ten years and created hundreds of thousands of jobs. The ‘app economy’ – jobs related to the explosion of demand for smartphone apps – alone is responsible for creating roughly 466,000 jobs in America since 2008 when Apple launched the iTunes App Store.

This spirit of innovation that allowed the U.S. to bring the Internet to the world and made us the world leader in wireless continues to fuel our companies and entrepreneurs. Internet technology is now bringing innovation to parts of our lives we never imagined would be connected. For example, the rising popularity of connected homes is a great illustration of this trend. There’s the Nest thermostat, which adapts itself to your schedules and preferences and can be controlled by your smartphone. The Belkin WeMo Switch that allows homeowners to monitor and adjust the electrical consumption of everyday appliances to improve efficiency. There’s even a smartphone controlled color-changing light bulb. As companies shift to connecting more and more everyday devices to our networks, one data forecast estimates that this so-called “Internet of Things” could create net profits of \$14.4 trillion of value over the next ten years. That’s trillion with a “T.”

With that kind of potential, how can we ensure that our government fosters American business success? We must recognize that the Internet and mobility are the frontiers on which countries are now vying for economic supremacy; we must ensure that American companies have the freedom to bring new and novel technologies to market; and we must provide a deregulatory environment in which innovation can thrive.

Sadly, the laws that govern this vital sector of the economy are woefully out of step with the modern communications marketplace. The Communications Act is born out of the era of Ma Bell and the government granted monopoly over phone service. In the 1990s we attempted to come to grips with the changing world of technology by amending the Communications Act twice, once to attempt to force competition into the local phone service market and once to recognize the growing popularity of cellular communications. For the wired telephone industry, the Telecommunications Act of 1996 set forth a world of mandates and attempted to manipulate the telecom market from Washington. The wireless sections added to the Communications Act by

the 1993 budget bill, by contrast, mandated minimal regulatory intervention and let the market do what it does best.

How did those two approaches work out? Long distance is dead. The number of homes with wired telephone service continues to shrink. And, there are now more wireless subscriptions than people in the United States. It is high time that Washington learns the lessons of our telecom past.

That's why I've made it a goal during the last two Congresses to work to deregulate and provide industry with the tools that it needs to fuel investment and job creation. It is this spirit of deregulation that fueled our approach to spectrum auctions in the 112th Congress. Demand for spectrum is rapidly outpacing the usable supply. Spectrum that goes unused, or underused, is leaving American jobs on the table, and placing innovation on the backburner. But our spectrum licensing and auction laws failed to reflect this simple truth.

Broadcast television stations are licensed under some of the oldest provisions of our communications laws. These licenses, created in an era of command and control FCC policies, are useable only for broadcasting under very specific terms. As a former radio broadcaster, I am painfully familiar with the level of involvement the FCC's rules have on day-to-day broadcast operations. By contrast wireless companies, by and large, are licensed for "flexible use" – meaning that as long as they follow technical rules, licensees can use the spectrum for any kind of service. Because of this historical distinction, FCC rules had created an artificial limit on the transfer of spectrum from one use to another as markets and technologies evolved.

Our subcommittee made it our mission to resolve this problem through a new auction mechanism: and I'm proud of the results. The FCC is now working to implement a first-of-its-kind incentive auction that allows market mechanisms to determine the most economically beneficial use of spectrum and for existing licensees to realize the value of relinquishing this valuable public asset. The spectrum that we will make available through the incentive auctions will be a significant investment in the wireless information economy and will help America continue to be the world leader in wireless services.

While the incentive auctions are a significant step toward providing American businesses the resources they need to succeed, unlicensed spectrum also serves a valuable role in our nation's innovation economy. That's why in addition to the incentive auction, the Middle Class Tax Relief and Job Creation Act of 2012 directed the FCC to examine the possibility of making additional spectrum in the 5GHz band available for unlicensed services and devices. This spectrum is particularly well suited for such purposes and I am pleased that the FCC and the NTIA are working together to investigate whether we can make this a reality.

Having tackled the challenge of making commercial spectrum more responsive to economics in the 112th Congress, my colleagues and I have turned our attention to government spectrum use in the 113th. Working with Federal agencies, we are looking at ways to incent more efficient use, ways to upgrade and improve Federal spectrum systems, and how we can bring the innovation of the commercial sector to bear on the challenges of the government. I am proud to say that this is a bipartisan effort and I thank my Democratic colleagues for working with us on this important effort.

Equally important to physical resources in our modern economy are human resources. Your companies depend on the availability of skilled engineers and sadly we are not producing enough of them here at home to meet demand. Projections from the Bureau of Labor Statistics estimate that by 2020 there will be over 122,000 computer science jobs available with only

51,000 American graduates in computer science to fill those jobs. That's a 70,000 job shortfall. In June of this year, five high-tech companies alone (IBM, Intel, Microsoft, Oracle, and Qualcomm) had 10,000 openings for high-tech workers here in the United States. While we're doing our best here in this country to improve our education system to meet this demand, your companies can't wait and we as a nation can't wait. This very important industry has the potential to move the entire country out of economic doldrums into real recovery. We don't want to have American companies move their operations overseas because they're unable to find the talent they need here and unable to bring the talented to the United States. We don't want ambitious foreign students with advanced degrees to leave their American universities only to apply their talents with our global competitors in foreign lands.

To meet this need, Congress should act to increase the number of visas available to skilled workers like scientists and engineers who want to work for American companies. That's why I supported the STEM Act in the last Congress, which was passed in the House with a bipartisan vote. I firmly believe that we need to fight to keep talent here in the United States and to make sure that this country can compete for the best and brightest worldwide. Having grown up on a cherry farm, I would be remiss if I neglected to mention that our farms need labor too, and while the immigration system doesn't seem to recognize this, I can tell you that labor, too, is skilled.

Make no mistake, the rest of the world is watching the United States and trying their best to find ways to game our system and the international system to their benefit. In addition to immigration, this is also true with respect to control of the Internet. As many of you know, over the last few years the international community has been taking steps to insert the prying fingers of government into the Internet. They want to subvert the Internet for their own purposes, but we cannot allow these efforts to succeed.

Governments' traditional hands-off approach has enabled the Internet to grow at an astonishing pace and become perhaps the most powerful engine of social and economic freedom our world has ever known. Under the multi-stakeholder governance model, non-regulatory institutions manage and operate the Internet by developing best practices with public and private sector input.

Yet at the World Conference on International Telecommunications (WCIT) in Dubai last December, a number of nations sought to subject the Internet to international regulation. While disguised in language about broadband deployment, interconnection of networks, management of "spam," cybersecurity, and access to telecommunications, at bottom the proposals could be used to justify economic regulation of the Internet and even government censorship.

This development was not unanticipated and the work of these opponents of the Internet freedom is unlikely to abate. Last Congress the House and Senate unanimously passed a "sense of the Congress" supporting the Internet as it is today. This Congress, the House has passed a bill by a vote of 414-0 to make this the law of the land. Unfortunately, our colleagues in the Senate have not seen fit to give this unanimous House bill its day in the Senate. I look forward to their consideration of this important policy.

Domestically, we should focus on innovation and how to foster a culture of investment in America by modernizing the FCC and its governing statutes. I was in the radio business for two decades with my wife. My father started in this industry in 1934 as an engineer and went on to manage and own stations for nearly 52 years. I literally grew up in this business, myself — starting as a janitor in my parent's 1kw AM station as a young teenager, spinning records on air at 15, covering fires and floods with mobile units, wiring studios, fixing cart machines and installing computer audio automation in the early 90s. After decades of being regulated by the

FCC never in my wildest dreams did I imagine that I would chair the subcommittee that oversees the FCC. Isn't America a great country? And isn't it a wonderful time to hold that gavel?

As technology converges towards the Internet, the old regulatory distinctions between telephone, wireless, cable and internet services no longer make sense. My subcommittee is taking a hard look at the role of existing regulations in the current technological landscape. Last week we held a hearing looking at the disparate regulations in the modern video marketplace.

Next month we will continue this exercise by examining the future of copper networks in the age of the Internet and how regulation is impacting broadband deployment and innovation in the Internet world. The Internet and wireless worlds have thrived without regulation. The last thing we want to do is stifle the unprecedented innovation of the Internet by subjecting it to the complicated outdated government imposed rules of the plain old telephone network.

In addition to sensible and modern regulations, the industry deserves the most efficient and transparent regulatory agency possible. While practices have improved, there is no guarantee that future administrations won't backslide to the old ways—only a statute can ensure good process from commission to commission. To that end, we have worked to implement reforms to the processes of the Federal Communications Commission. The Consolidated Reporting Act of 2013 eliminates outdated reports, such as the telegraph competition report, and consolidates several individual FCC reports into one comprehensive marketplace evaluation that allows the industry, consumers and Congress to better assess competition in the communications sector and reduces the paper work burdens on the agency. This bill passed the House of Representatives last week with overwhelming support—another unanimous vote: 415-0. Like our unanimous Internet governance bill, I urge our colleagues on the other side of the dome to pass this bill and to help improve the function and efficiency of a key sector of our government.

We are also continuing our work on other FCC process reforms; timelines for filing of comments and replies, rules to allow sufficient time for the public to review comments, statistical reports and ex parte contacts submitted to the commission, and shot clocks for completion of proceedings and cost-benefit analyses and findings of market failure before agency intervention in the market place. These will help create the kind of predictable and consistent practices that ensure the agency is productive in carrying out its responsibilities. We've worked with all of the stakeholders, held multiple hearings, and are now working with our colleagues in a bi-partisan approach to see if we can agree on legislation to get this done sometime this fall.

The shot clocks especially have been an area in which I have personal experience, to which I am sure many of you can relate. In 2003 I filed an application with the commission to license a couple of translators for our stations in Oregon. While the licensing of a translator is not a trivial matter, it is one that the FCC's Media Bureau should be very familiar with and be able to address in short order. Licensing of radio stations is one of the core functions for which the commission's predecessor agency – the Federal Radio Commission – was created in 1927. I would like to be able to tell you that the application was addressed before I sold the station in 2007, but that wouldn't be true. No, it was earlier this year, 2013 that the FCC informed me that my application had been granted. To make matters worse, after about 10 years of years of waiting, the commission informed me that I was on a shot clock and had 30 days to perfect by bringing the translator on the air. If the FCC is able to set shot clocks for licensees, surely it can set shot clocks for itself and report to Congress how well it is meeting them. The bottom line is that American businesses deserve statutes born of the innovation era that recognize the power of the competitive market and government leaders with the wisdom to avoid micromanaging the market.

Another key element of ensuring the continued growth of the tech industry is removing disincentives for investment. The federal government must get out of the business of subsidizing competition to private investment. While there are certainly valuable uses for programs like BTOP and BIP in truly unserved areas, lack of planning and analysis of projects have led to poor execution, and over building of private networks in many instances. As a result, there has been a significant waste of taxpayer dollars that discourages private investment and threatens existing services to consumers. When the private sector and government-funded projects compete with each other, nobody wins – least of all the American public – especially when the government has to borrow the money!

The unintended consequences of the United States tax system are another barrier to investment that must be addressed. In no small part due to our territorial tax system, American businesses find themselves with the unenviable choice of investing abroad or paying a hefty tax bill for the privilege of investing in America. Eight out of the top 10 publically traded companies in the world according to the Financial Times Global 500 are based in US. These companies collectively have tens of billions of dollars sitting abroad rather than being put to work employing Americans because our tax system penalizes repatriating profits. You need look no further than Apple to see the perverse consequences of this system. With \$145 billion in cash on hand, Apple borrowed \$17 billion rather than pay U.S. taxes on the cash they have sitting abroad.

In the current economy, we as a government should be asking ourselves one simple question with respect to all of tax policies: does this help grow the economy and create jobs in America? Taxing foreign profits of domestic companies at higher rates than the other countries and taxing those foreign profits at those high rates when they are reinvested in the United States fails this test.

These are just some of the many issues I am working on with my colleagues. There is a sign I found in a small town while touring my district. It said; “Pull up you big boy boxers and git R done”. On my subcommittee, and in the House of Representatives, we are working hard to do just that: get it done. We have no choice. We must address these issues to grow our economy at home and maintain our economic leadership in the world. Make no mistake: we can do this. But America must continue to lead the way.

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